

A Quick Tax Guide For Australian Virtual Real Estate Agents and Investors



About the Author

Dr Marc R Dussault is an award-winning author, recipient of several marketing awards as well as Entrepreneur of the Year finalist, a serial entrepreneur and accomplished business executive. Founder of numerous successful businesses, Dr Dussault has experience in a wide variety of industries and geographic regions including North America, Europe, Australia and Asia Pacific. Dr Dussault has been a public company CEO and director, as well as business development manager of a global IT software company.

A Fellow of the Australian Institute of Management, Dr Dussault is also the recipient of the highly acclaimed Company Directors Course Diploma 2005 bestowed upon him by the highly respected Australian Institute of Company Directors.

Combining a unique blend of academic excellence in engineering, business and law with an entrepreneurial flair and breadth of experience acquired over the past 25 years, Dr Dussault has consulted to hundreds of entrepreneurial companies as an exponential growth strategist to assist business owners to unshackle themselves from the day-to-day operations of their companies, catapult their success and achieve personal and financial freedom.

This document is supplied to help you ascertain if the Flipping Websites For Profit Program is right for you. The information supplied is for your educational benefit and we advise you get independent advice from your tax accountant or financial advisor.

If you acquire Internet websites in a Virtual Real Estate Portfolio as income-generating capital assets, then these activities are considered as a form of investment rather than a business by reference to the Australian Tax Office (ATO) Ruling ATO ID2001/746.

The relevant considerations for the distinction of such activities between investment and business include:

- The significant size and scale of the activities;
- The number of hours spent in the activities;
- Extent of personal involvement in the activities; and
- The business-like manner in which the activities are planned, organised and carried on.

This article will help you, as an owner of an internet website portfolio for investment purposes, determine:

- Which income is assessable for tax purposes;
- Which expenses are allowable deductions;
- Which records you need to keep;
- What you need to know when you dispose of the internet websites

Please note that the views expressed by Dr Marc Dussault and Anita Cheung are for educational purposes only. You must seek your own independent professional tax advice from a certified tax professional. Do feel free to pass this document on to your advisor, that's why it was written!

INCOME

Rental and other rental-related income is the full amount of rent and associated payments, or become entitled to, when you rent out your internet website portfolio. You must include your share of rent you earn in your tax return. In most cases, you earn 100% of the rent from your websites so all the income is to be declared.

EXPENSES

Expenses for which you may be entitled to an immediate deduction in the income year you incur the expenses include:

- Website domain hosting fees.
- IT services to support and maintain your websites.
- Affiliate fees you pay to people who refer people to buy your products (e.g. ClickBank).
- Product Image graphics and banners to make your products look professional.
- Copywriting or other writing services to create content for you site.
- Search Engine Optimisation (SEO) services to improve free organic traffic
- Registration Fees for products and/or subscriptions.
- Research material (e.g. Newspapers, magazines, online memberships related to your websites).
- Any other related expenses that help produce the INCOME for the site(s).
- Educational expenses incurred in acquiring knowledge and skills in investing in a Virtual Real Estate Portfolio. Note: Exponential Programs products and services are eligible educational expenses under section 8-1 of the ITAA 1997.

If claimed personally, this is the most beneficial if you are in the top marginal tax rate of 45%. On top of this, there is a further saving of 1.5% being the Medicare Levy. For more information, we have two other Tax Tips documents that explain this in detail.

Expenses for which you may be entitled to a deduction over a number of income years include:

- Amount for decline in value of depreciating assets
- Borrowing expenses

You cannot claim a deduction for the costs of acquiring or disposing of your Internet websites. That is a capital item that is discussed later.

KEEPING RECORDS

You should keep records of both income and expenses as you do for all your other corporate and investment activities. Records must include:

- Name of supplier
- Amount of income/expenses
- Nature of goods or services
- Date the expense was incurred, and
- Date of the document

BUYING AND SELLING WEBSITES

An Internet website is a Capital Gains Tax (CGT) asset under section 100-25 of the ITAA 1997. You make a capital gain or capital loss if a CGT event happens. The most common CGT event happens when you dispose of a CGT asset and buy it from or sell it to someone else under section 100-20 of the ITAA.

Please note: If you are registered for GST, a GST liability may also arise when you dispose of a CGT asset.

Your net capital gain is:

- Your total capital gains for the year
minus
- Your total capital losses for the year and any unapplied net capital losses from earlier income years
minus
- Any CGT discounts to which you are entitled.

For most CGT events, your capital gain is the difference between your capital (sales) proceeds and the cost base of your CGT asset, and it is assessable under section 102-5.

The cost base of a CGT asset is generally the cost of the asset when you bought it, however, it also includes certain other costs associated with acquiring, improving and disposing of the asset. Check with your accountant about this – it's pretty standard accounting practice.

EXAMPLE 1: Capital Gains Only

Adam bought a website at \$500 and improved it for \$100. He then sold it for \$1,200 with no income earned. His capital gain is worked out as follows:

Capital proceeds	\$1,200	
Cost base		
- Cost of site acquisition	\$500	
- Cost of site improvement	\$100	\$600
Capital gain	\$600	

EXAMPLE 2: Capital Gains And Investment Income

Julie bought a website for \$5,000 and improved it for \$1,000. The website generated income of \$1,000 and then was sold for \$8,000. Her capital gain is worked out as follows:

Capital proceeds	\$8,000	
Cost base		
- Cost of site acquisition	\$5,000	
- Cost of site improvement	\$1,000	\$6,000
Capital gain	\$2,000	

In addition, the income generated from the website is treated as income from investment and is assessable under section 6-5 of the ITAA 1997.

The CGT discount percentage is the percentage by which you reduce your capital gain.

The discount percentage is 50% for individuals and trusts, and 33 1/3% for complying superannuation entities.

Note: you can reduce the capital gain only after you have applied all the capital losses for the income year and any unapplied net capital losses from earlier years.

So there you have it.

Pretty simple stuff really. If any of this seems complicated, forward it on to your accountant or Certified Tax Professional for additional clarifications.

Websites are eligible investments for Australian SuperAnnuation Funds.

For any additional clarifications, please contact the author, Anita Cheung at your convenience.



Co-author:

Anita Cheung

Anita Cheung & Co. Pty Ltd
368 Sussex Street, Suite 611
Sydney, NSW, 2000

Tel: (02) 9261 1888

Fax: (02) 9261 1788

Email: kcmservco@bigpond.com.au

Profile of Anita Cheung

1. Professional qualifications and membership

- Awarded the Bachelor of Economics (Accounting major) by Macquarie University
- Member of CPA Australia and Australian Institute of Management

2. Professional Experience:

- Founded Anita Cheung & Co, an Accounting Firm for the past 16 years.
- Radio program host educating the Chinese community on tax legislation and policy with a guest speaker from the Australian Tax Office (ATO).
- Co-organiser of seminars with Westpac Bank on business-related topics with guest speakers from different Government departments and experts in a wide variety of fields and specialisations.

3. Unique Selling Proposition

As a Professional CPA Accounting Firm based in Sydney's CBD for the past 16 years, we are flexible in providing small to medium-sized businesses, tailor-made tax and accounting solutions that will save you hundreds of tax dollars, lodging your BAS statements and tax returns on time to avoid expensive penalties as well as relieving you from spending hours on bookkeeping paper work, so you can focus on growing your business.

STANDARD EARNINGS & INCOME DISCLAIMERS

ANY EARNINGS OR INCOME STATEMENTS, OR EARNINGS OR INCOME EXAMPLES, ARE ONLY ESTIMATES OF WHAT WE THINK YOU COULD EARN WITH THIS PROGRAM. THERE IS NO ASSURANCE YOU'LL DO AS WELL AS OTHERS HAVE DONE IN THE PAST.

IF YOU RELY UPON OUR FIGURES, YOU MUST ACCEPT THE RISK OF NOT DOING AS WELL. WHERE SPECIFIC INCOME FIGURES ARE USED AND ATTRIBUTED TO AN INDIVIDUAL OR BUSINESS, THOSE PERSONS OR BUSINESSES HAVE EARNED THAT AMOUNT. THERE IS NO ASSURANCE OR GUARANTEE YOU'LL DO AS WELL. THEREFORE, IF YOU RELY UPON OUR FIGURES, YOU MUST ACCEPT THE RISK OF NOT DOING AS WELL.

ANY AND ALL CLAIMS OR REPRESENTATIONS, AS TO INCOME EARNINGS IN THIS DOCUMENT OR ASSOCIATED WEB SITE ARE NOT TO BE CONSIDERED AS AVERAGE OR EXPECTED EARNINGS. TESTIMONIALS ARE NOT REPRESENTATIVE OF YOUR CHANCES OF SUCCESS OR INCOME POTENTIAL. JUST BECAUSE ONE PERSON DID IT DOES NOT MEAN YOU WILL.

THERE CAN BE NO ASSURANCE THAT ANY PRIOR SUCCESSES OR PAST RESULTS, AS TO INCOME EARNINGS, CAN BE USED AS AN INDICATION OF YOUR FUTURE SUCCESS OR RESULTS. FINANCIAL RESULTS ARE BASED ON MANY FACTORS.

WE HAVE NO WAY OF KNOWING HOW WELL YOU WILL DO, AS WE DO NOT KNOW YOU, YOUR BACKGROUND, YOUR WORK ETHIC, OR YOUR BUSINESS SKILLS OR PRACTICES. THEREFORE WE DO NOT GUARANTEE OR IMPLY THAT YOU WILL GET RICH, THAT YOU WILL DO AS WELL, OR MAKE ANY MONEY AT ALL. THERE IS NO ASSURANCE YOU'LL DO AS WELL.

INTERNET BUSINESSES AND EARNINGS DERIVED HAVE UNKNOWN RISKS INVOLVED AND ARE NOT SUITABLE FOR EVERYONE. MAKING DECISIONS BASED ON ANY INFORMATION PRESENTED IN OUR PRODUCTS, SERVICES, OR WEB SITE, SHOULD BE DONE ONLY WITH THE KNOWLEDGE THAT YOU COULD EXPERIENCE SIGNIFICANT LOSSES, OR MAKE NO MONEY AT ALL. ONLY RISK CAPITAL SHOULD BE USED. YOU SHOULD SEEK INDEPENDENT ADVICE WHEN MAKING ANY DECISION INVOLVING MONEY.

ALL PRODUCTS AND SERVICES BY OUR COMPANY ARE FOR EDUCATIONAL AND INFORMATIONAL PURPOSES ONLY. USE CAUTION AND SEEK THE ADVICE OF YOUR OWN ACCOUNTANT, LAWYER OR PROFESSIONAL ADVISOR, BEFORE ACTING ON THIS OR ANY INFORMATION.

USERS OF OUR PRODUCTS, SERVICES AND WEB SITE ARE ADVISED TO DO THEIR OWN DUE DILIGENCE WHEN IT COMES TO MAKING BUSINESS DECISIONS AND ALL INFORMATION, PRODUCTS, AND SERVICES THAT HAVE BEEN PROVIDED SHOULD BE INDEPENDENTLY VERIFIED BY YOUR OWN QUALIFIED PROFESSIONALS.

OUR INFORMATION, PRODUCTS, AND SERVICES ON THIS WEB SITE SHOULD BE CAREFULLY CONSIDERED AND EVALUATED, BEFORE REACHING A BUSINESS DECISION, ON WHETHER TO RELY ON THEM.

ALL DISCLOSURES AND DISCLAIMERS MADE HEREIN OR ON OUR SITE, APPLY EQUALLY TO ANY OFFERS, PRIZES, OR INCENTIVES, THAT MAY BE MADE BY OUR COMPANY.

YOU AGREE THAT OUR COMPANY IS NOT RESPONSIBLE FOR THE SUCCESS OR FAILURE OF YOUR BUSINESS DECISIONS RELATING TO ANY INFORMATION PRESENTED BY OUR COMPANY, OR OUR COMPANY PRODUCTS OR SERVICES.

OUR COMPANY ADHERES TO THE AUSTRALIAN TRADE PRACTICES ACT RESERVING THE RIGHT TO REFUSE ADMISSION TO ITS PROGRAM AT ITS SOLE DISCRETION.

Exponential disclaimer:

Having an Exponential Mindset means realizing that the previous disclaimer is necessary but does not preclude someone with a mind open to boundless possibilities to discover and assess such an exciting opportunity. We all know that we get what we deserve in life when we leave it up to others to manage our finances and they get it wrong, we deserve to suffer the 25, 30 or even 45% drop in our superfund balances. An exponentially minded person however has the option to explore other avenues of wealth creation. Out-of-the-ordinary ones that can produce extra-ordinary results. An Exponential Mindset enthusiast can extrapolate what it can mean to fully leverage the Internet a global audience that is online 24 hours a day, 7 days a week. Leveraging that to create a passive income stream is not just exciting it's real. People of all walks of life are doing it. This particular model, that will be presented at the Wealth Without Worries Investor Briefing is a unique twist that will without a doubt excite you. As stated in the previous paragraph, you MUST make sure this is for you and that you do get all the independent and relevant advice from your trusted professionals. Most will discourage you because they don't understand the model or they have a vested interest in keeping you locked in the 'old school' model. If that happens, this is NOT for you. Remember, there are only 20 to 30 spots available anyway with more or less 20 million Australians, that's about one in a million... Literally. So if you have any doubts, Wealth Without Worries and Flipping Websites For Profit is not for you. This is a very different way of looking at wealth creation just like entrepreneurs go into business to build a business that someone will buy one day, this is no different except that implemented properly, there is no 'office, store or factory' to go to. It's all virtual on the Internet!